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THE NATION

Bush's Budget Chief Raises the Prospect of Dipping Into the Medicare Trust Fund

Politics: Disagreement with Democrats over using such funds to stave off a deficit could have sharp consequences.

Ronald Brownstein

July 12 2001

WASHINGTON -- With the slowing economy squeezing federal revenue, President Bush's top budget advisor said for the first time Wednesday that the federal government may be required to tap a part of the Medicare trust fund to remain out of a deficit.

Office of Management and Budget Director Mitchell E. Daniels Jr. said the federal budget surplus for 2001 could be as much as 40% smaller than the \$275 billion forecast earlier this year.

Daniels said that would provide enough revenue to operate the government without dipping into the surplus funds accumulating in the Social Security system, which both parties have said should be set off limits. But he said he could not guarantee Washington would balance its books without using the excess funds in the portion of the Medicare program that funds hospitalization. Daniels argued that that prospect poses no threat to Medicare because the administration is committed to using the surplus in the hospitalization fund solely to pay for other Medicare expenses, such as doctor visits now funded mostly by general tax revenue.

Even so, Daniels' admission is guaranteed to intensify the administration's conflict over fiscal policy with Senate Democrats, who have summoned him to explain the shrinking surplus estimates at a hearing of the Senate Budget Committee today.

Democratic leaders, such as budget panel Chairman Kent Conrad (D-N.D.), already are accusing the administration of "raiding" Medicare to fund the 10-year, \$1.35-trillion tax cut Bush pushed through Congress this spring. "To me, it is most unwise to use trust fund monies to fund the other operations of government," Conrad said.

At one level, this dispute centers on an obscure question of federal accounting: whether it makes sense to wall off the surpluses accumulating in the Medicare hospitalization program when the rest of Medicare still consumes billions of dollars in general revenue.

But this technical disagreement could have sharp political consequences if Democrats can convince voters that Bush is siphoning needed money away from Medicare, the giant federal health care program for the elderly, to fund his tax cut.

Last winter, the Congressional Budget Office estimated that the federal government would run a \$275-billion surplus in the current fiscal year, which ends Sept. 30. But Bush's tax cut sliced about \$75 billion off that

estimate. Now, slowing revenue growth has reduced the projection even further.

Daniels' office won't release its official recalculation until August, but he said Wednesday that he expects the surplus to come in at \$160 billion or more--a level he termed "enormous."

But most of that surplus will come in the Social Security trust fund that both parties agree should be used to reduce the federal debt and not to fund general government operations. Initially, the CBO estimated that the Social Security surplus would run at \$156 billion this year; more recently, Senate Democrats have projected that the revenue slowdown could reduce the number to just under \$150 billion.

Daniels would not say how large a surplus he expects in the federal operating budget apart from Social Security, though the figure could be as small as \$10 billion or \$15 billion if the total federal surplus comes in near the \$160 billion he cited.

Daniels did acknowledge that the operating surplus may shrink to the point where it is smaller than the excess revenue accumulating in the Medicare trust fund--the portion of the program that funds hospitalization visits and is funded by the payroll tax.

The budget debate between the parties in the coming months may turn largely on the significance of that fact. Medicare is divided into two parts: the hospitalization component and the portion that primarily pays for doctor visits and home health care. That latter part is funded by premiums paid by seniors and general tax revenue.

Daniels argued that the surplus in the Medicare hospitalization account--estimated to hit \$28 billion this year--is a meaningless concept because the Medicare program overall will still consume as much as \$54 billion in general revenue. As have congressional Republicans, Daniels argued that it is a legitimate use of the Medicare trust fund surplus to pay for those expenses in the rest of the program, as well as potential Medicare expenses such as a prescription drug benefit.

With increasing force in the last few years, though, Democrats have argued that the Medicare trust fund surplus, like the surplus in the Social Security trust fund, should be used solely for debt reduction. Democrats say that would reduce federal interest costs and leave Washington more money down the road to shoulder the programs' increased costs when the baby boom retires.

Conrad said there was little Congress or the administration could do this year to prevent the use of surplus Medicare hospitalization funds but that the trend should inspire a broader reconsideration of Bush's tax and budget plans.

"You wouldn't want to raise taxes or cut spending in an economic slowdown," Conrad said. "To me, this year is more of a warning about what's to come. We are already in trouble, and that's before [the administration's] request for a big increase in defense and before any new money for education or natural disasters."

For his part, Bush suggested Wednesday that the tightening surplus numbers may stiffen his resistance to appropriation bills that spend more than the levels laid out in the budget plan Congress approved earlier this year. At a meeting with House Republicans, Bush indicated he would "use his veto pen against excessive spending that would jeopardize priorities," said House Majority Leader Dick Armey (R-Texas).

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